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LEGISLATIVE SERVICES AGENCY
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Fiscal Note

Fiscal Services Division

HF 166 – Disabled Veteran Property Tax Credit (LSB1174HV)
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Fiscal Note Version – New

Description

House File 166 relates to the Disabled Veterans Homestead Tax Credit. The Bill expands eligibility for the Credit to include those veterans with a permanent and total disability rating based on individual unemployability that is compensated at the 100.0% disability rate. The Bill takes effect on enactment and applies retroactively to May 26, 2014, for credit applications filed on or after that date.

Background

The Disabled Veterans Homestead Tax Credit is part of the Homestead Tax Credit and funded through a standing unlimited General Fund appropriation. While qualified applicants for the Homestead Tax Credit benefit from a tax credit equal to the property tax on $4,850 of taxed value, qualified applicants under the Disabled Veterans Homestead Tax Credit receive a tax credit equal to 100.0% of property taxes due on a qualified homestead.

Prior to the enactment of **HF 2352** (Disabled Veterans Property Tax Act of 2014), disabled veterans qualified for the 100.0% property tax credit only if they qualified under a very limited federal program. With the adoption of that Act, eligibility was expanded to additional disabled veterans.

To benefit from the Homestead Tax Credit and the Disabled Veterans Homestead Tax Credit, the applicant must apply by July 1, with the tax benefit first occurring in the following fall (successful new applicants by July 1, 2014, first receive a tax benefit with the tax payment due in the fall of 2015).

Assumptions

- There are approximately 2,000 Iowa resident veterans that will be newly eligible under the provisions of the Bill, and 50.0% (1,000) of those are assumed to be homeowners.
- Of the 1,000 assumed homeowners, 230 will have applied in time to benefit beginning in FY 2016, and an additional 770 will apply and benefit beginning in FY 2017.
- The average home is assumed to be valued at $134,000 and a residential rollback of 55.7% is used. This provides a taxable value of $74,683.
- All property qualified under the Disabled Veterans Homestead Tax Credit will also qualify under the regular Homestead Tax Credit, so the $74,683 is reduced by the value of the Homestead Tax Credit ($4,850 of value), resulting in a value for tax credit calculation purposes of $69,833.
- The average statewide residential tax rate for FY 2015 is used in the calculations ($34.88/thousand). Applying that tax rate to the $69,833 yields an average tax credit benefit of $2,436 per qualified homestead property.
- For FY 2016, $2,436 per property times 230 properties equals an additional cost to the General Fund of $560,000. For FY 2017, the calculation is $2,436 times 1,000 properties, or $2.4 million.
- The current General Fund balance sheet appropriation for the Homestead Tax Credit equals $135.0 million for FY 2016. The LSA estimates that the regular Homestead Tax Credit will total $131.0 million for FY 2016 and existing Disabled Veteran Tax Credits, after the addition

of veterans newly eligible under SF 2352, will total $986,000. Adding those two figures, plus the FY 2016 projected impact of this Bill ($560,000), equals $132.5 million.

Fiscal Impact

House File 166 has a State General Fund fiscal impact, as it extends a benefit to more disabled veterans than is the case under current law, and that benefit is financed through a State General Fund appropriation. The fiscal impact is estimated to be $560,000 for FY 2016 and $2.4 million in FY 2017 and after.

As stated above, the current balance sheet estimate for the Homestead Tax Credit is $135.0 million for FY 2016. The LSA estimates that number to be sufficient to cover current law claims, and the estimated additional claims made eligible under the provisions of this Bill. In addition, absent a noticeable increase in the statewide average property tax rate, the $135.0 million appropriation level should be sufficient to fully fund the Homestead and Disabled Veteran Homestead Credits in future fiscal years.

Sources

Department of Management property tax files
Department of Revenue
Department of Veterans Affairs

/s/ Holly M. Lyons

February 11, 2015

The fiscal note for this bill was prepared pursuant to **Joint Rule 17** and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.